

Small and Medium Scale Enterprises (SMEs): A Catalyst in Promoting Economic Development in Nigeria

Imeokparia, P.O. (Mrs.)

Department of Vocational and Technical Education, Faculty of Education, Ambrose Alli University, Ekpoma,
Edo State, Nigeria

Ediagbonya, Kennedy*

Department of Vocational and Technical Education, Faculty of Education, University of Benin, Benin City, Edo
State, Nigeria
donkynny@yahoo.com

Abstract

This research paper has specifically x-rayed the concept of Small and Medium Scale Enterprises (SMEs) and it was defined as a business which is owned, led by one or a few persons, with direct owner(s) influence in decision making, and having a relatively small share of the market and relatively low capital requirement. The contributions of SMEs to the economy were examined in this paper. The problems confronting SMEs and the possible strategies of combating the problems were also examined. A conceptual framework was developed by the authors and it explains/illustrates the series of variables that are integral in the area of SMEs and the effects it can possibly have on the economy. The concept of Economic Development was briefly described. A section was devoted to examining the roles of SMEs for economic Development in Nigeria. One of the major recommendations advanced in this paper was that the Government should urgently invest massively in improving the current infrastructural base in the country.

Keywords: SMEs, Economic development and growth

1.0. Introduction

The national economy has remained a focal point in recent debates owing to the rising level of unemployment, poverty, insecurity, low productivity, human capital flight/brain drain. The need to advancing the socio-economic, political and technological growth of any nation relies heavily on the creativity and technical ingenuity of the players/actors in that economy in transforming the available resources into productive use. It has been stressed by scholars that Small and Medium Scale Enterprises (SMEs) is a driving force in developing and developed nations alike. The emphases on SMEs remain a recurring decimal in the lexicon of Nigeria and this is not unconnected with the realization of the roles of SMEs in job creation, poverty alleviation and foreign exchange conservation (Jimah, 2011; Ikherehon, 2002; Akingunola, 2011).

Agu (2001) defined SMEs as a business which is owned, led by one or a few persons, with direct owner(s) influence in decision making, and having a relatively small share of the market and relatively low capital requirement. The earliest manifestations of SMEs in advanced countries were cottage industries that later transformed into industrial complexes and tech factories. SMEs today account for the bulk of output in most countries today. It is also a proven job creator: the share of SMEs in global productivity is over 30% higher in some countries, but generally growing. In China, SMEs employ over 50% of the workforce while in the United States (US), SMEs account for over 50% of Gross Domestic Product (Ehinomen & Adeleke, 2012). In Nigeria, SMEs employ over 60% of the labour force both in formal and informal sectors. The need to have a regulatory body to control the activities of SMEs in the country led to the formation of Small and Medium Enterprises Development Agency of Nigeria (SMEDEN) in 2004 by an act of parliament towards the realization of the goals and objectives of SMEs.

There is no doubt that SMEs play significant roles in the advancement and development of the economy. Some of these roles which have been briefly identified above remain integral to the progress of the nation. For these roles to be fully realized there is need for our educational system to fully be repositioned with the aim of accelerating the growth and development of SMEs. The establishment and management of SMEs no doubt have numerous implications on the economic development of the nation as documented by scholars in the field. The term Economic development has been defined by various scholars in different ways. According to Misra and Puri (2003), economic development means growth plus progressive changes in certain critical variables that determine the well-being of the people. They assert that there are qualitative dimensions in the development process which may be missing in the growth of a given economy expressed in terms of an increase in the national product or the product per capita. From the foregoing, it becomes obvious that economic development is far beyond the numerical growth in a nation's income which politicians often express to draw the attention of unsuspecting electorates. This growth or changes must cut across all the sectors of the economy and must be felt in the living standard of the citizens and this is what SMEs seeks to bring to reality.

1.1. Concept of Small and Medium Scale Enterprises (SMEs)

SMEs remain an important sub-sector in the nation's economy. The contribution of SMEs has been recognized as sustenance of the economy because of their capacity in enhancing the economy's output and human welfare (Akingunola, 2011). SME is one of the indices of measuring economic development, and as such, the establishment and proper management of SMEs have a positive effect on the nation's economic development. The term SMEs has been described by different authors in different ways. The Nigeria Bank for Commerce and Industry (as cited in Jimah, 2011) defined a small scale enterprise as one whose capital does not exceed ₦750,000. The above definition plays emphasis on the capital requirement in the formation of the business. Though capital is not the only consideration in determining whether a business venture is a SMEs or not. According to Osazee and Anao (as cited in Inegbenebor, 2006). a small scale business is any business undertaken, owned, managed and controlled by not more than two entrepreneurs, has no more than twenty employees, has no definite organizational structure (that is, all employees report to the owners) and has a relatively small share of its market. In a similar vein, Inegbenebor (2006:11) opined that the current industrial policy of Nigeria, Small and Medium Scale Enterprises (SMEs) are now defined on the basis of employment. That is:

Micro/cottage industries	1 and 10 workers
Small – Scale Industries	11 and 100 workers
Medium Scale industries	101 and 300 workers
Large scale industries	301 and above

The development of many countries either developed or undeveloped is often measured by such indices as the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry. There is no doubt that small scale enterprises exist in most economic environment. The historical background of small and medium scale enterprises in Nigeria can be traced back to 1946 when the essential paper No. 24 of 1945 on "A Ten year plan of development and welfare of Nigeria 1946 was presented. Small and Medium Scale Enterprise has been described as an all time necessity in any economy. It was there at the beginning; it has gained prominence today and will increase its importance tomorrow. This is simply dictated by the developmental needs of the Nigeria society (Aremu & Adeyemi, 2011). In recognition of the depth and breadth of the consequences of small-scale enterprises in alleviating poverty and national development, there has been a deep-self interest in recent years for development of Nigerians small-scale enterprises particularly since the adoption of the economic reform in 1986 (Aremu, 2004).

The small and medium scale industry is seen as a key to Nigeria's growth and alleviation of poverty and unemployment in the country (Basil, 2005). With the increasing number of SMEs in the country, the need to harmonizing their policies, programmes and activities became very important and this led to the formation of Small and Medium Scale Enterprises Agency of Nigeria (SMEDAN) in 2004. This agency was establishment by the government for the sole aim of regulating the activities concerning SMEs in the country. Some other agencies also work in collaboration this SMEDAN to ensure healthy business climate in the country.

1.2. Conceptual Framework

This conceptual framework shows at a glance the inter-related variables in the study and it is used in illustrating the various factors and variables that are integral in the establishment and management of Small and Medium Scale Enterprises (SMEs). Below is the illustration of the conceptual framework.

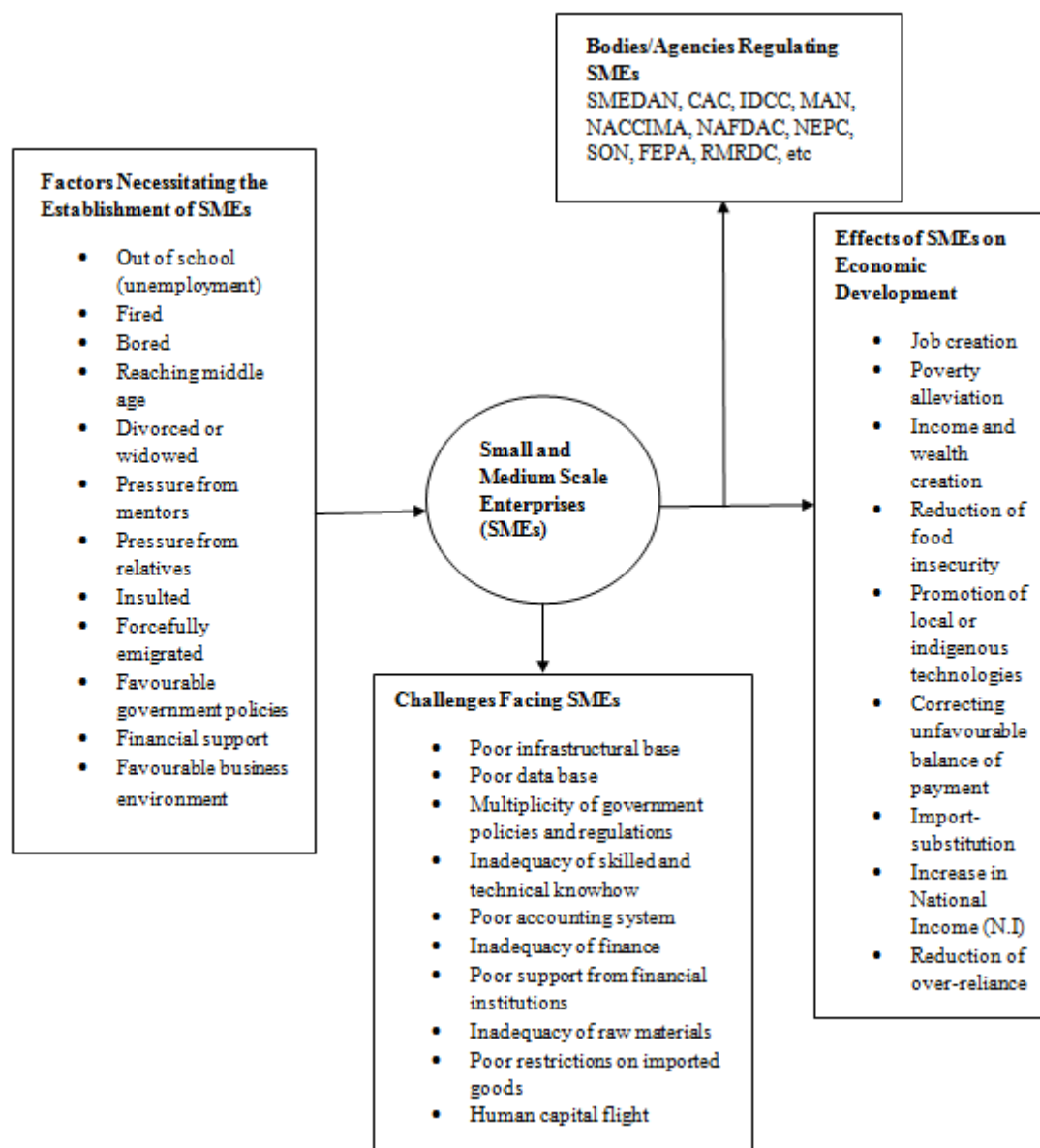


Figure 1: Imeokparia and Ediagbonya Model on SMEs

Source: Author's field work

The framework above gives a vivid illustration of the inter-related variables that are associated with Small and Medium Scale Enterprises (SMEs) ranging from its establishment to its outcome. It has been able to illustrate various factors that can possibly pull or push one into establishing SMEs. These factors are synonymous with what Inegbenebor (2006) describes as pull and push hypotheses of entrepreneurship. Shapero and Sokol (1982) describe some of these factors as negative displacement, between things and positive pull (Ediagbonya, 2013). These factors that necessitate the establishment of SMEs include: out of school (unemployment), fired, bored, insulted, forcefully emigrated, favourable government policies and favourable business environment. The current growth of SMEs in the country today may not be unconnected with the above factors. Owing to the current level of unemployment in the country, most graduates from out institutions are quick to settle for self-employment. That is, establishing a Small and Medium Scale Enterprises (SMEs).

There is no doubt that there are a number of factors militating against the establishment and management/growth of SMEs in the country. Several literatures have attempted to document some of the challenges facing SMEs and these challenges are summarized in this model as: poor infrastructural base, poor data base, multiplicity of government policies and regulations, inadequacy of skilled and technical knowhow, poor accounting system, inadequacy of finance, human capital flight, etc. These factors have posed serious threat to the establishment, management and growth of SMEs in the country. It is believed that if SMEs must continue to flourish, these challenges must be addressed.

This model has equally emphasized the roles of bodies/agencies in regulating the establishment and management of SMEs in the country. Some of the bodies or agencies explained in this model include: SMEDAN, CAC, IDCC, MAN, NACCIMA, NAFDAC, NEPC, SON, FEPA, RMRDC, etc. these bodies ensure that there is harmony and proper co-ordination of the activities of SMEs in the country. The final phase of this model is on the effects of SMEs on economic development. SMEs no doubt play a significant role in the economic development of the nation and these roles have been documented in several scholarly books and journals. This model has briefly summarized the effects of SMEs on economic development and they include: creation of job opportunities, poverty alleviation, reduction of food insecurity, reduction of dumping by industrialize nations, promotion of local or indigenous technologies, correcting unfavourable balance of payments, encouragement of import-substitution, increase in National Income (N.I) and reduction of over-dependence or reliance on imported goods.

1.3. Problems Confronting SMEs in Nigeria

There are several challenges/problems confronting the establishment, growth and continued existence of SMEs in Nigeria; and some of them will be examined in the paragraphs below:

Small and Medium Scale Enterprises in Nigeria is confronted with the problem of inadequate funds (Adelaja, 2012). There is no doubt that capital/fund is a major requirement in the establishment and expansion of SMEs. Over the years, there has been complaints/outcry by prospective entrepreneurs or job seekers of not having enough capital to establish their own businesses. In some cases, those that graduate from schools or skill acquisition centres are not able to access fund or loan facilities in order for them to fully take off/establish their businesses.

There is also a problem of inadequate infrastructural base in the country and as such, the establishment and growth of SMEs are hampered (Adelaja, 2012). Infrastructure in this context include good road network, electricity, telecommunications, pipe born water and others. For SMEs to actually thrive very well there must be adequate infrastructural base but this is not the case in this country. The problem of electricity supply remains a major challenge to SMEs in the country. The power cut or outage often experienced in the country has a great negative effect on the SMEs.

There is also a problem of poor entrepreneurial or technical knowhow (Adelaja, 2012). This has remained a major problem to the growth of SMEs. For one to start up SMEs there must be some level of technical knowhow. That is, in terms of skills that is needed in that particular business. The possession of appropriate entrepreneurial skills – sales, marketing, finance, human relations, etc. will boost the growth of SMEs. Unfortunately in Nigeria, this is not the case. It was upon the realization of this major deficiency that the government decided to introduce Entrepreneurship Education into the curriculum of tertiary institutions and made it compulsory.

The multiplicity of policies and regulatory measures has in recent times been negatively affecting the establishment and growth of SMEs in Nigeria (Adelaja, 2012). The policies and regulatory measures put in place by the government has been on the increase and this has a way of discouraging Entrepreneurs in investing owing to the numerous stages and formalities they have to go through before starting and remaining in business. Some of these policies and measures include registration of names, sign boards, payment of bills/rates and payment for outdoor adverts.

The inadequacy of raw materials is a major challenge confronting the establishment and growth of SMEs (Adelaja, 2012). Most would-be entrepreneurs have business ideas but the lack/inadequacy of raw materials has made it difficult for these business ideas to be translated into reality. At times, where these raw materials are located may not be easily accessible probably owing to the poor road network.

The absence of proper and accurate data base regarding SMEs is also another problem. It is often difficult to ascertain the number of SMEs in a particular local government, state or country. There are registered and unregistered SMEs in the country but getting the accurate figures remained a major challenge. This phenomenon has greatly been negatively affecting research works in the area of SMEs (Adelaja, 2012). Researchers in this field may not be able to access accurate records on SMEs and as such, their findings may be misleading.

The unstable policy environment in the country has been negatively affecting the growth of SMEs (Adelaja, 2012). In recent times, there has been frequent and series of policy changes in the country without due consultation with the stakeholders (that is, those concerned). The ban on motor-cycle in Edo State in 2013 which was less than a week notice is one too many to mention. This rendered most of the SMEs (spare parts sellers) owners' unemployed and brought untold hardship to them.

The high level of insecurity in the country ranging from kidnapping to the 'Boko Haram' insurgency remains a major problem confronting the establishment and growth of SMEs in the country. Most SMEs owners have shut up their businesses while would-be entrepreneurs are apprehensive to invest. Most persons have acquired the necessary entrepreneurial skills/technical knowhow and have the required funds, but the insecurity

in the country has made them indecisive because no one will be willing 'to fish in troubled waters'.

1.4. Strategies to Combating the Problems Confronting SMEs in Nigeria

There is no doubt that the problems confronting the growth and development of SMEs are numerous. Having identified the problems in the above section, the need to identifying the possible ways of addressing the problems become imperative and these solutions are discussed in the paragraphs below.

The provision of adequate funds to the operators or actors in SMEs remains one of the outstanding panaceas to the challenges confronting the establishment, growth and development of SMEs in the globe and the country in particular. Most entrepreneurially minded individuals desire to invest in SMEs but the financial constrain possibly arising from the unemployment and low income which eventually leads to low savings and which climax in low investment. According to Ediagbonya (2013), the author recommended that the Government should make accessible loan facilities available to entrepreneurs/would-be entrepreneurs (SMEs operators). The position of this author becomes very crucial because it is not all loan facilities released by the Government that are accessible. Some of these loan facilities may possibly be used in gratifying politicians or may be used as a 'political tool' in getting the votes of electorate.

The provision of adequate infrastructural base remains a major driving force in ameliorating the plights of SMEs operators. When there is reliable and dependable infrastructure on ground, this will serve as a catalyst in boosting the growth and development of SMEs in the country. Some of these infrastructural facilities have been identified in the previous section and they include: electricity, good road network and communication network. The current electricity supply in the country is not helping the growth of SMEs and as such, all stakeholders in this area must make conscious effort to improve electricity supply.

The need to strengthening Entrepreneurship Education across all levels of the nation's educational sector will surely go a long way in equipping prospective SMEs owners with the necessary entrepreneurial skills and technical knowhow required to establish, grow and develop SMEs (Ediagbonya, 2013). Apart from this formal education acquired from various institutions, trade/commercial centres and apprenticeship should also be encouraged especially for those that will not be able to meet the requirements in the formal schools. Most craftsmen and artisans acquired their skills outside the conventional school system and they have been able to start up their businesses.

The Government should put in place the necessary machinery so as to streamline the policies and regulations covering SMEs in the country. The issue of frequent policy changes with its unpleasant result should be given serious thought by the government. Whenever there is need for policy changes, there should be due consultation among the stakeholders and such policy changes should be relatively stable in order not to unduly displace SMEs actors.

The Government should make conscious efforts to ensure that there is always regular/adequate supply of raw materials. This should be a cardinal issue in the policy of the government. For instance, the raw material needed in operating SMEs like saw mill is timber. So, the government should encourage the people to carryout afforestation (that is, planting of tree seedlings) activities in order to ensure regular supply of timber over the years.

All stakeholders should be given proper orientation on the need to maintain proper and accurate data base. The Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) should ensure that all stakeholders maintain proper and accurate records. It should also publish the activities of SMEs in the country from time to time as this will go a long way in keeping all stakeholders abreast about the activities of SMEs and in particular it will facilitate quality research work as researcher may not have need to falsify data.

The problem of insecurity in the nation has been attributed to so many factors ranging from fall in value system, poor delivery on electioneering promises and idleness among the teeming population (Ediagbonya, 2013b). The government should continue to strengthen educational programmes like civic education and peace and conflict resolution in schools. The Government should also make conscious effort to deliver her electioneering promises and the unemployed should be encouraged to acquire saleable/money-making skills that will make them engaged.

1.5. Roles of SMEs in Promoting Economic Development in Nigeria

Small and Medium Scale Enterprises no doubt play an integral role in promoting the economic development of any and Nigeria in particular. The roles SMEs play in promoting economic development in Nigeria are therefore discussed in this section.

SMEs play an invaluable role in creating jobs for the teeming population that is unemployed (Adelaja, 2012). The major issue confronting Nigeria as a nation is the high level of unemployment in the country which is having an adverse effect on the economic development of the nation. With the increasing establishment of SMEs in the country, there is an assurance that greater percentage of the population will be meaningfully engaged and thereby reducing the economic tension in the country.

SMEs ensure effective and efficient utilization of the available human and material resources in the country. In this context, the human resources refer to the labour force. That is, the individuals that are willing and able to work; while the material resources are the non-human factors that are needed in the production process. The growth of SMEs will therefore engage these resources and thereby avoiding wastages and underutilization. All these will in turn lead to economic development of the nation.

The growth of SMEs also plays a major role in reducing food insecurity in the nation. Hunger is one of the indices of a poor and economic less developed nation. Food insecurity incorporates a measure of resilience to future disruption or unavailability of critical food supply due to various risk factors including droughts, shipping disruptions, fuel shortages, economic instability and wars. With the establishment of more SMEs in the country, more food is made available to the population at a reasonable price. This trend in turn will lead to better standard of living which is tied to economic development.

The establishment and growth of SMEs in the country reduces the level of dependency of the country. In other words, there will be some level of self-reliance in the nation. It implies that the country is able to utilize her local technologies in getting things done in order to meet her economic demands. This scenario is a very healthy way of checking an unfavourable balance of payment position which has an adverse effect on the economic development of the nation. Once the country has less dependence on other countries as regards goods and services, the lesser the country's expenditure; and thereby making more resources available in executing people-oriented projects.

1.6. Conclusion

This paper has successfully examined the concept of Small and Medium Scale Enterprises (SMEs) in promoting Economic development. The term SMEs was x-rayed including its contributions in the economy. The authors exhaustively reviewed literatures related to the concept and equally developed a concept in explaining the associated variables in the field of SMEs. Based on the extensive review of literature, the paper therefore concludes that SMEs play a crucial role in ensuring economic development which is translated in the lives of all the citizens.

1.7. Recommendations

It is obvious that SMEs play a significant role in boosting economic development. Based on this, the following recommendations are therefore advanced in boosting:

- there should be active participation by all citizens in the growth of SMES;
- graduate of Entrepreneurship education should be encouraged to actively be involved in the growth of SME;
- research grants and aids should be given to students and researchers in the field of SMEs to be able to carry out researches that will promote SMEs;
- the government should make loan facilities available to both SMEs owners and prospective SMEs owners;
- the Government should make conscious efforts to harmonize the policies and regulations influencing SMEs;
- SMEDAN and other regulatory bodies should ensure that there is proper data base for SMEs; and
- The Government should urgently invest massively in improving the current infrastructural base in the country.

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